

A Brief Overview of Property Tax Reform

Presented to:

Commission on Business Personal Property and Business Taxation

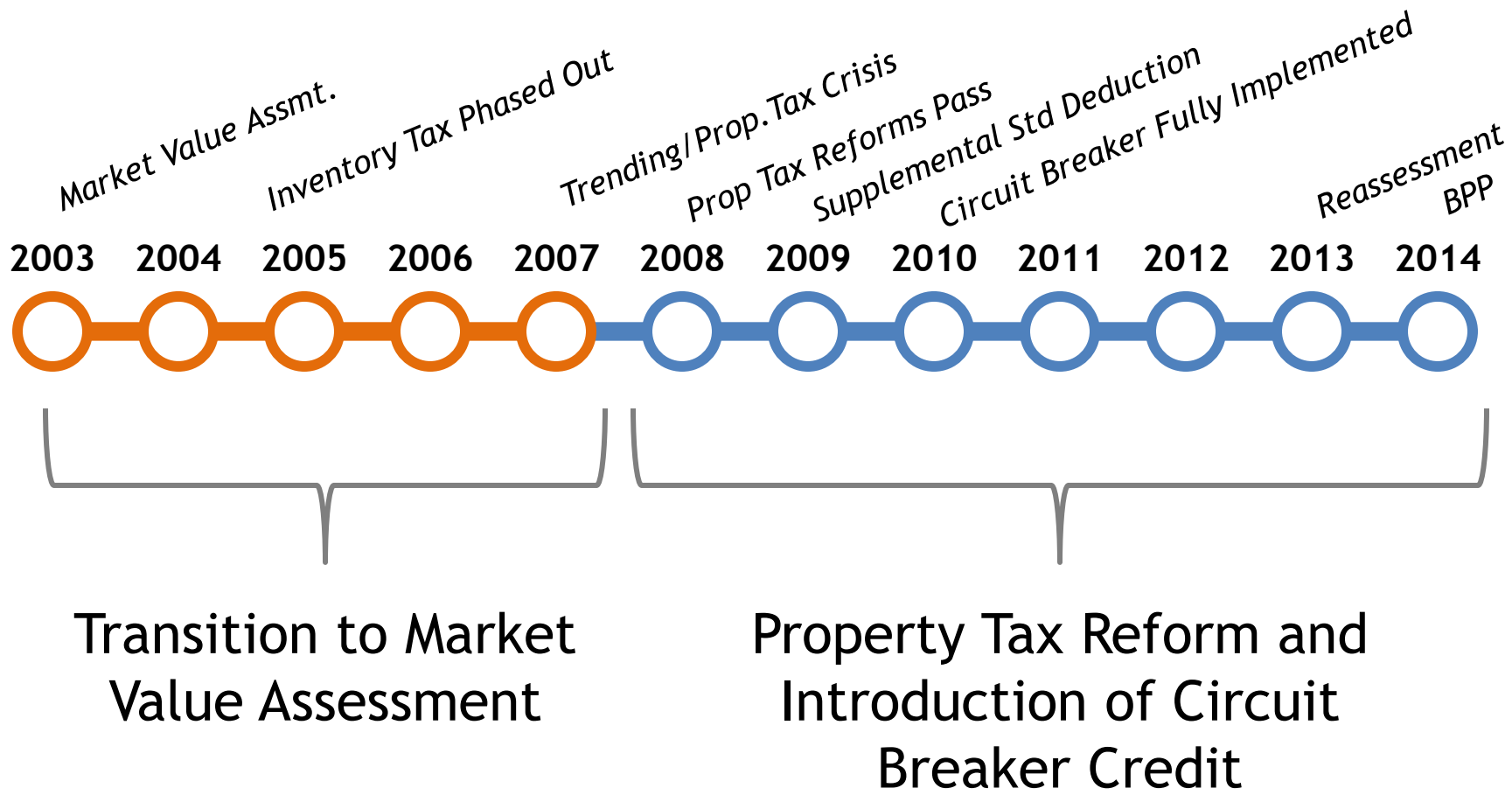
September 29, 2014

PolicyAnalytics, LLC

Outline

- **Overview of Property Tax Related Legislative Changes**
- **Drivers of the Circuit Breaker Credit**
- **Revenue Inter-Dependency of Local Governmental Units**

Property Tax Reform Timeline



Benefits to Taxpayers

The circuit breaker caps were introduced in response to property tax increases experienced by taxpayers prior to, and including CY 2007.

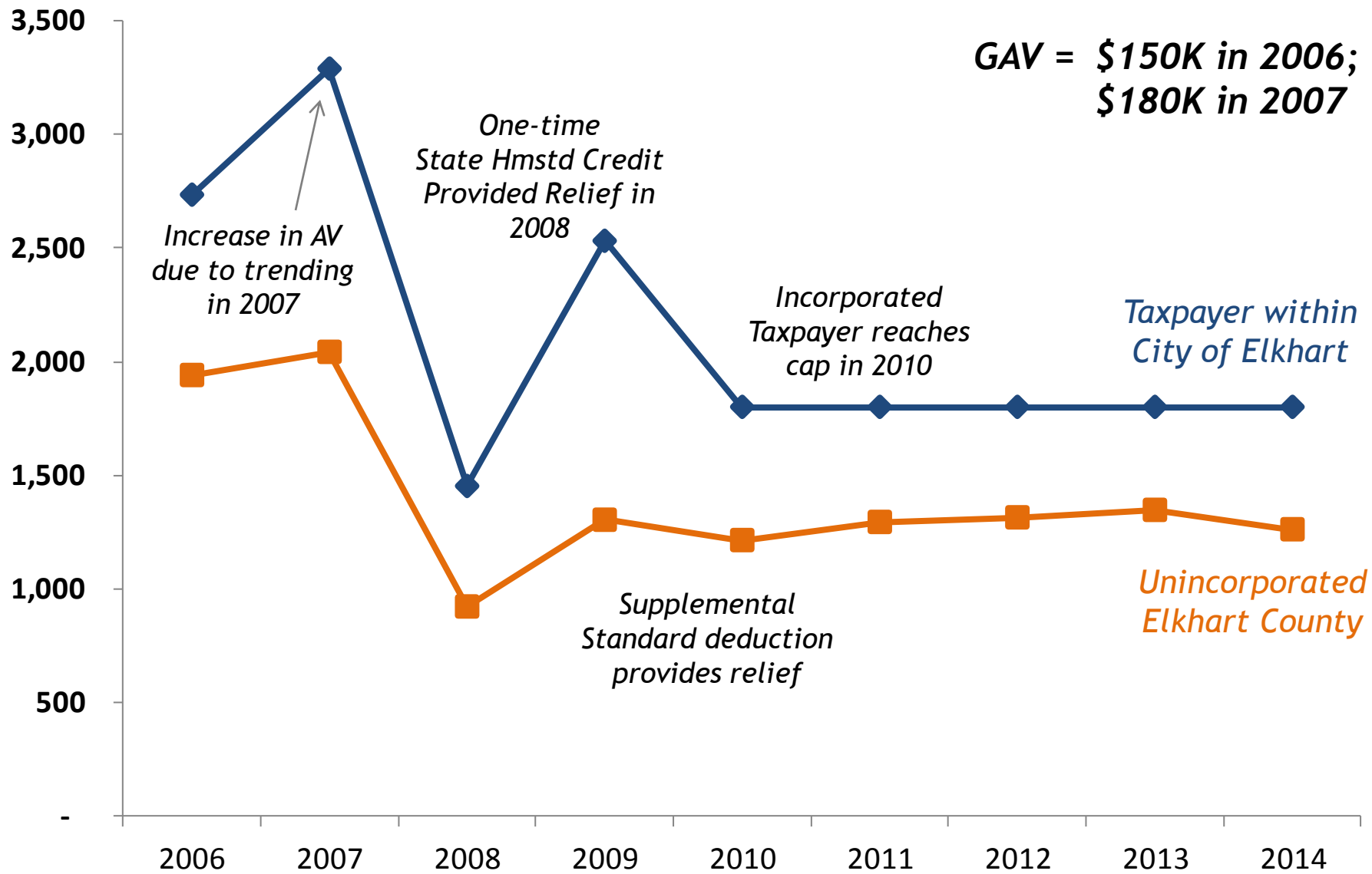
- Circuit Breaker tax cap limits were intended to provide property tax relief - reducing the property tax bill for taxpayers.
- Circuit breaker caps were intended to make tax bills more consistent and predictable for taxpayers.
- The circuit breaker provisions received widespread popular support, and were amended into the Indiana Constitution.

Did the legislation achieve these goals?

...and what were the results to local units?

Impact to Homestead Taxpayers

Elkhart County Example



Impact to Rental and Commercial Taxpayers

Illustrative Impact in Elkhart County

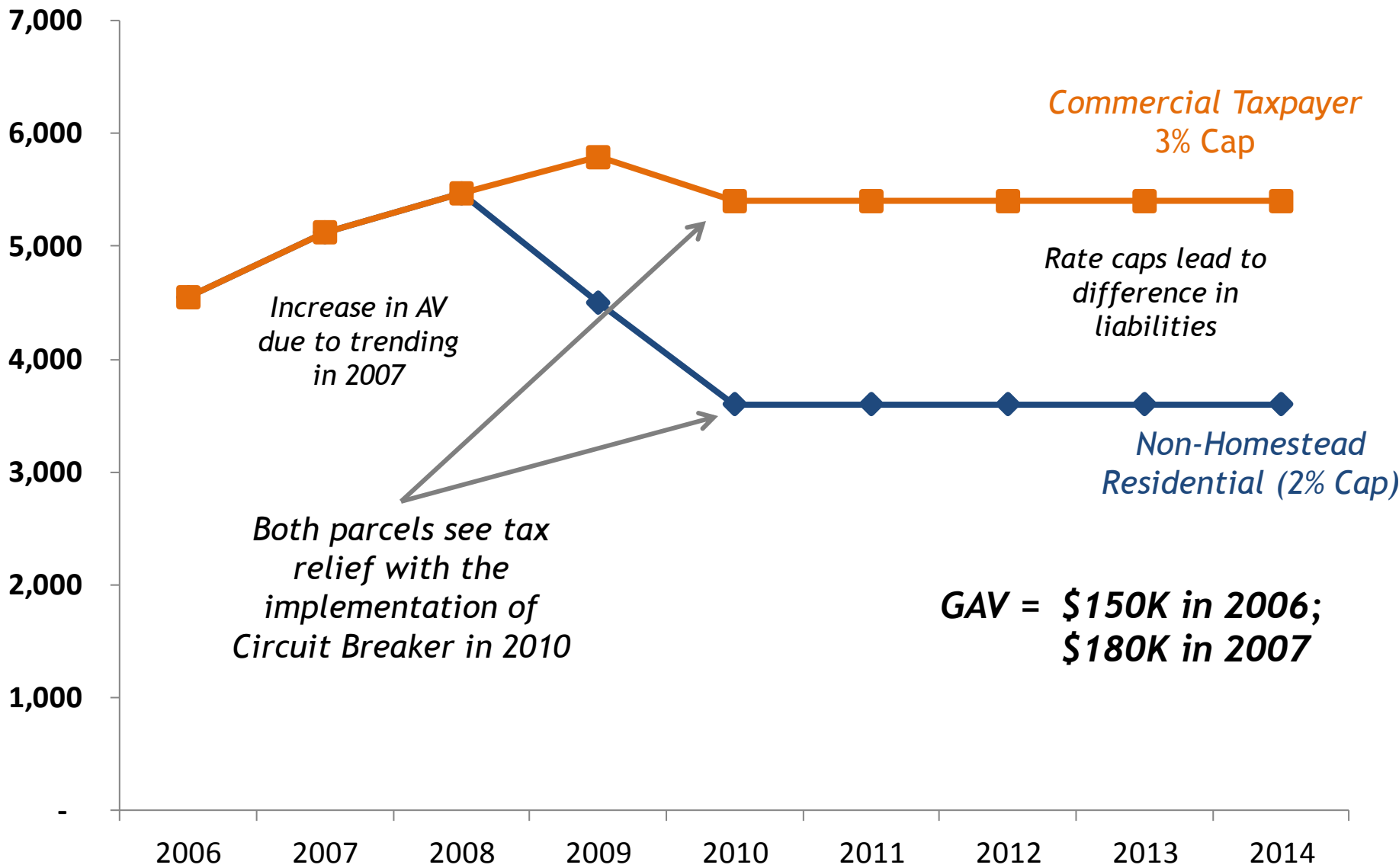
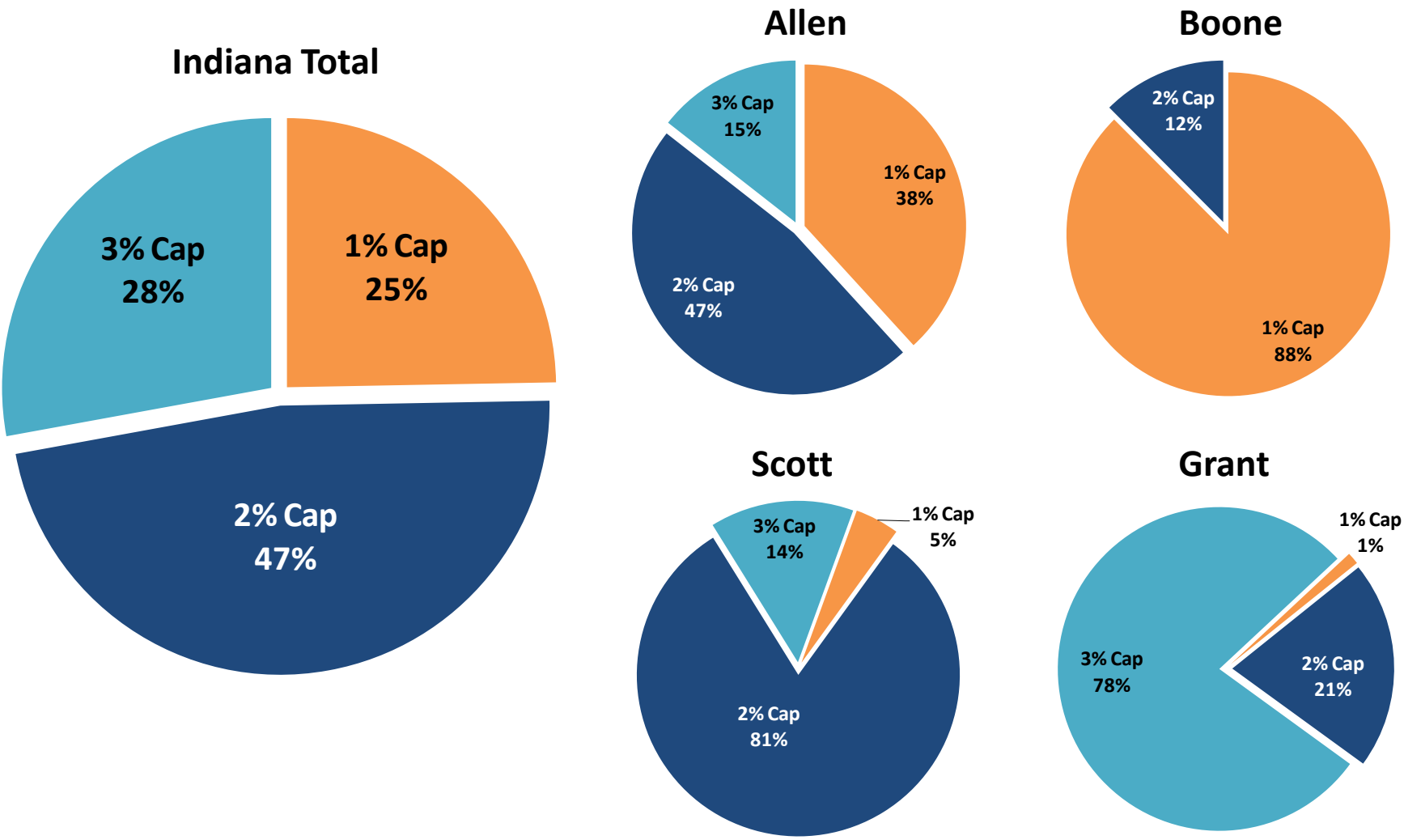


Illustration of Effective Rate Cap Thresholds

	Commercial	Rental	Homestead	Homestead
	District Tax	District Tax	District Tax	District Tax
	Rate @	Rate @	Rate @	Rate @
	\$3.0000	\$2.0000	\$1.0000	\$2.5510
Assessed Value	125,000	125,000	125,000	125,000
<i>Circuit Breaker Limit</i>	<i>3,750</i>	<i>2,500</i>	<i>1,250</i>	<i>1,250</i>
Standard Deduction	-	-	(45,000)	(45,000)
Supplemental Deduction	-	-	(28,000)	(28,000)
Mortgage Deduction	-	-	(3,000)	(3,000)
Net Assessed Value	125,000	125,000	49,000	49,000
District Tax Rate	\$ 3.0000	\$ 2.0000	\$ 1.0000	\$ 2.5510
Homestead Tax Liability	3,750	2,500	490	1,250

Distribution of Circuit Breaker Credits (2014 Tax Year)

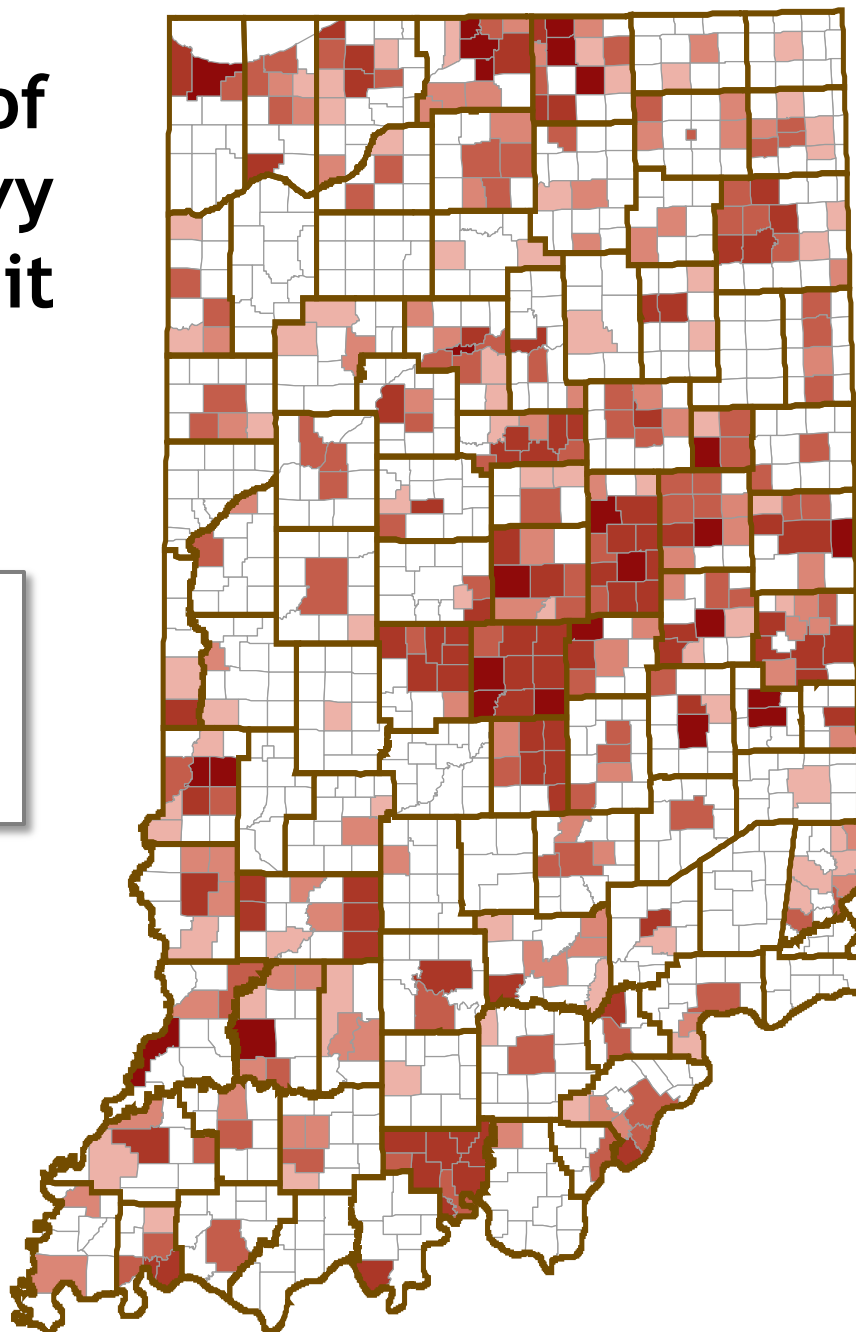


Influences on the Circuit Breaker

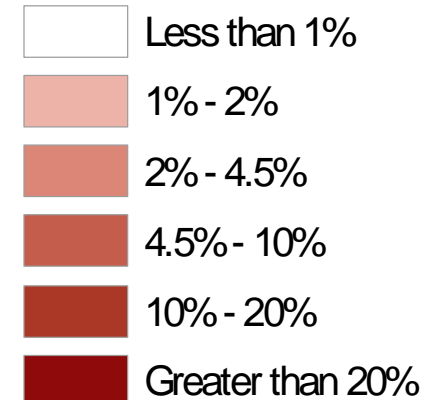
- Geography and level of services delivered
- Growth (or decline) in the property tax base
- Levying decisions, including overlapping taxing units

Percentage of Certified Levy Lost to Circuit Breaker (2013)

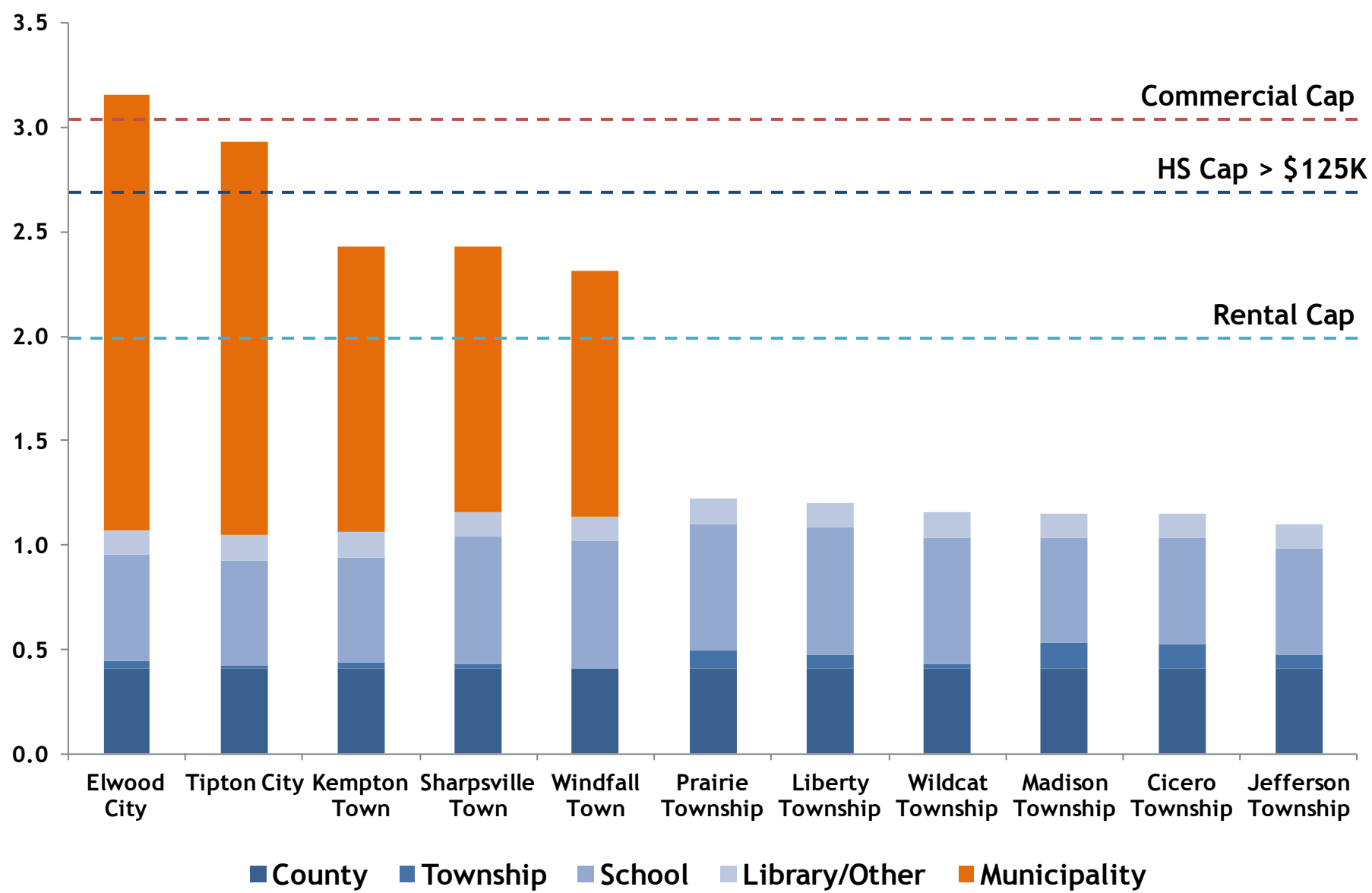
Circuit breaker losses are concentrated in incorporated areas



Legend

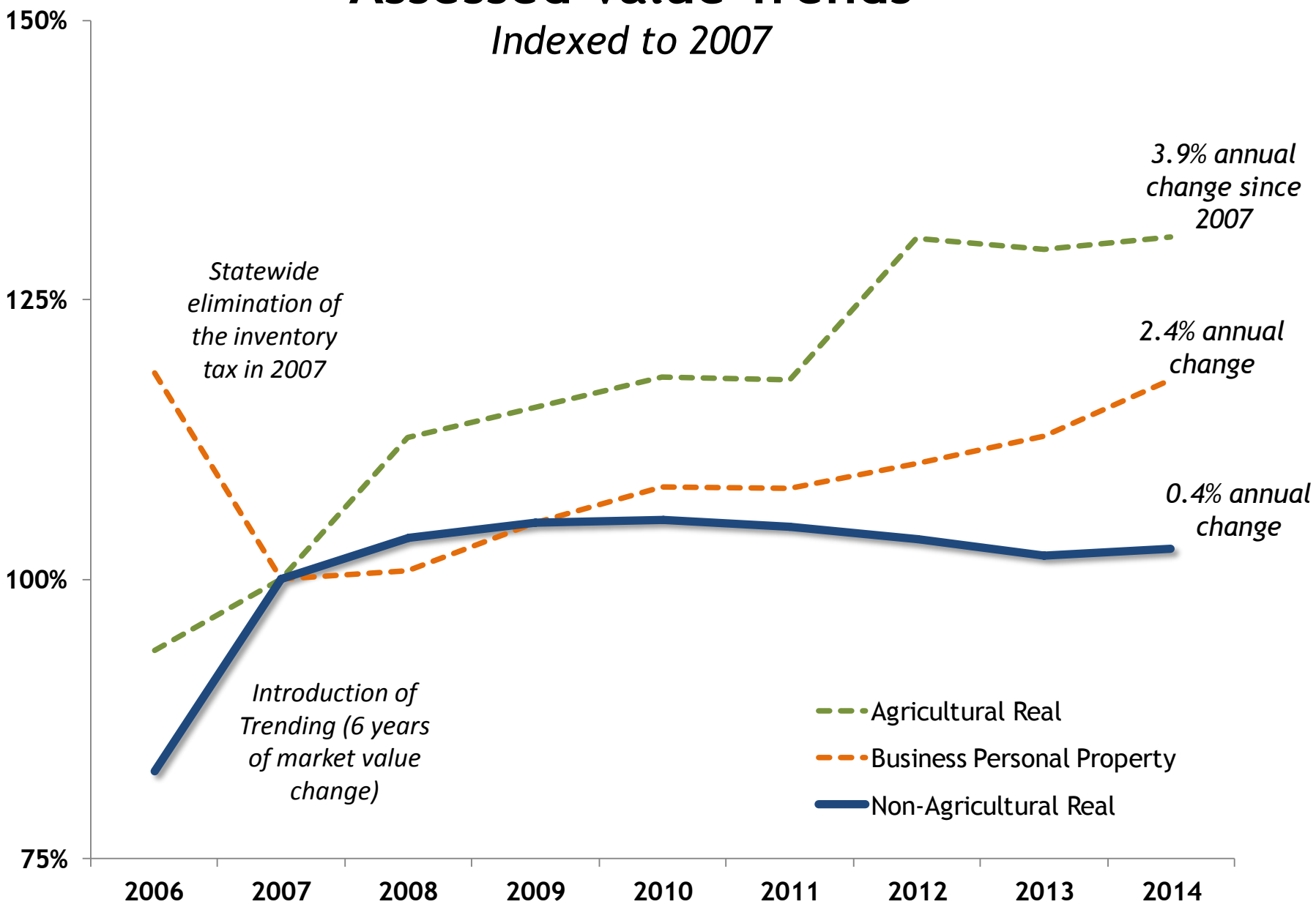


District Tax Rates for Tipton County



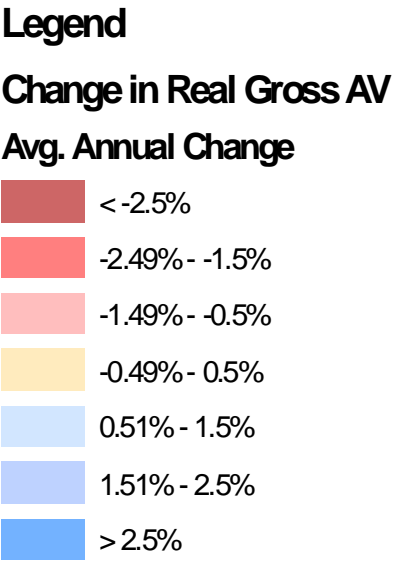
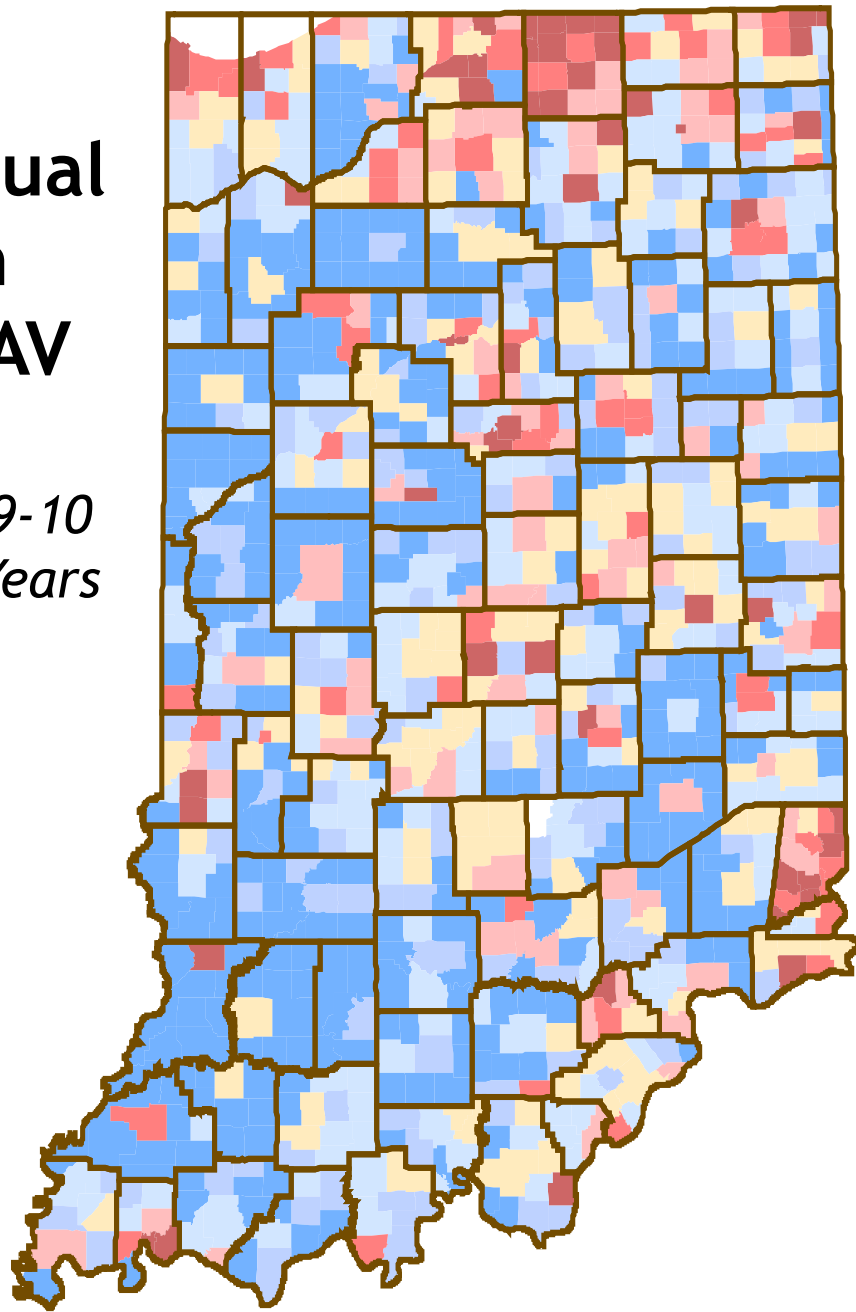
Assessed Value Trends

Indexed to 2007



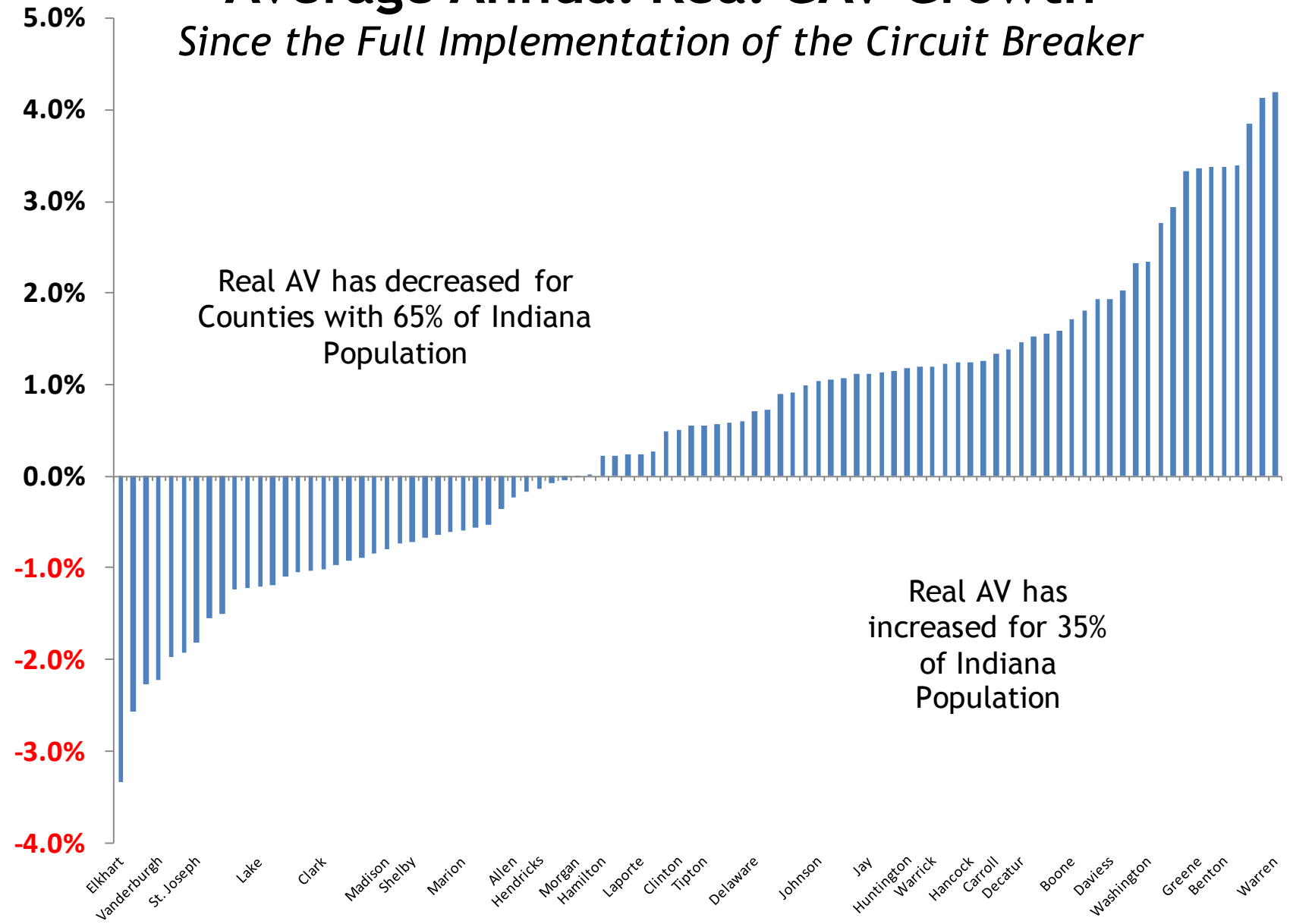
Average Annual Change in Real Gross AV

*Between the 2009-10
and 2013-14 Tax Years*



Average Annual Real GAV Growth

Since the Full Implementation of the Circuit Breaker



Gross Assessed Value vs. Net Assessed Value

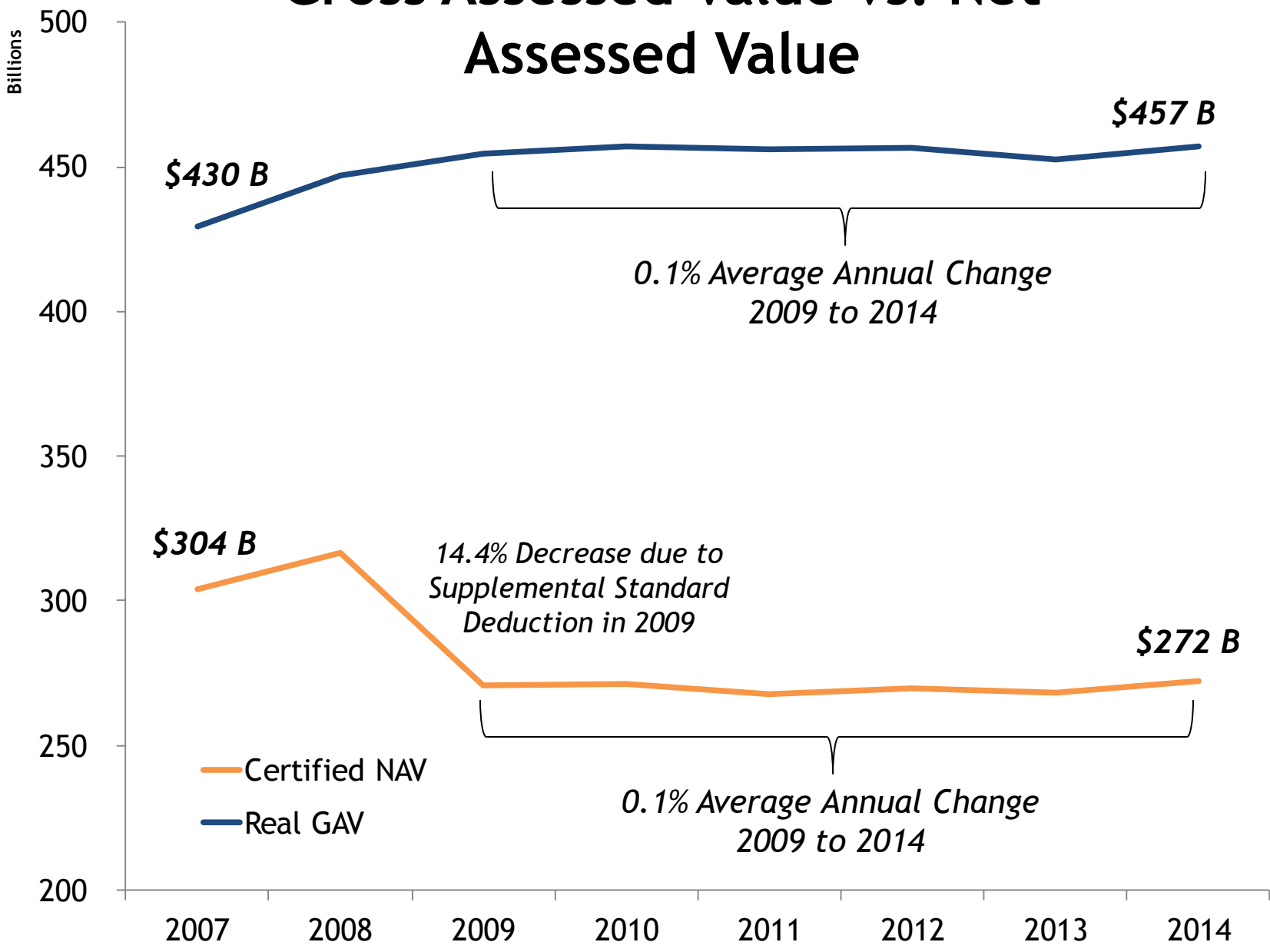


Illustration of Unit Interactions: Case A

Example: Coffee Shop with an Assessed Value of \$100K

Unit Type	Rate
County	0.5000
Township	0.1000
Municipality	1.5000
School	1.0000
Library	0.2500
District Rate	3.3500

↓
*Tax rate exceeds 3%.
Parcel hits the
circuit breaker cap and
pays a max of \$3K*

Distribution of Tax Payment

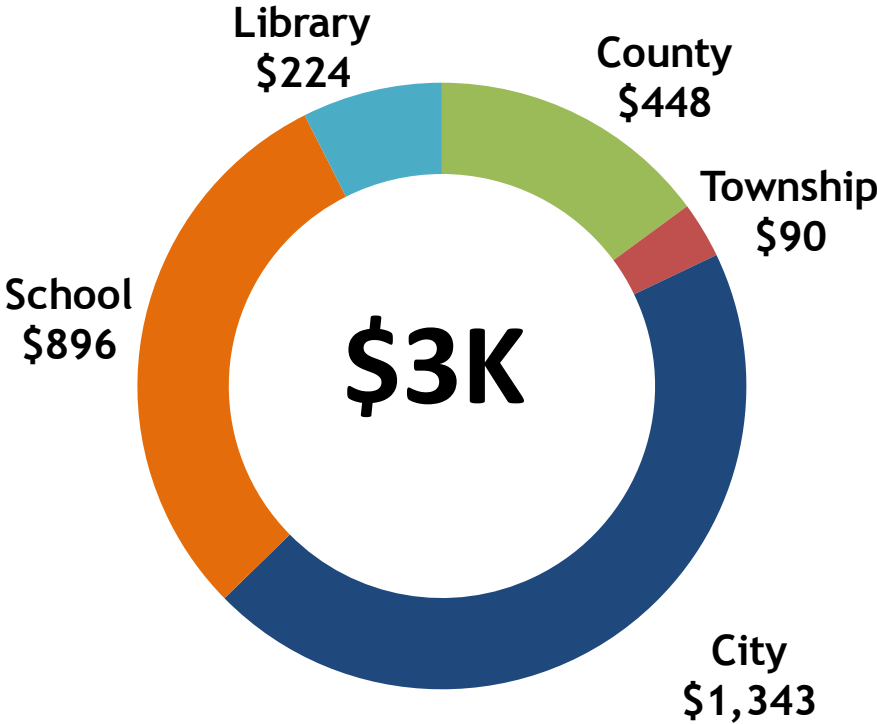


Illustration of Unit Interactions: Case B

Example: Coffee Shop with an Assessed Value of \$100K

Unit Type	Rate
County	0.5000
Township	0.1000
Municipality	1.5000
School	1.3000
Library	0.2500
District Rate	3.6500

↓
*Tax rate exceeds 3%.
Parcel hits the
circuit breaker cap and
pays a max of \$3K*

Distribution of Tax Payment

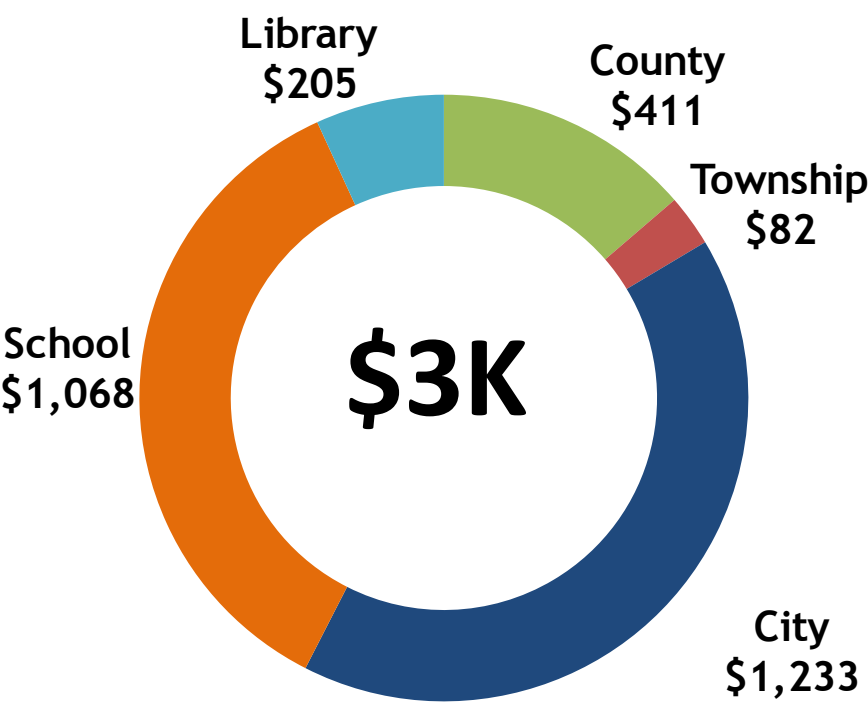
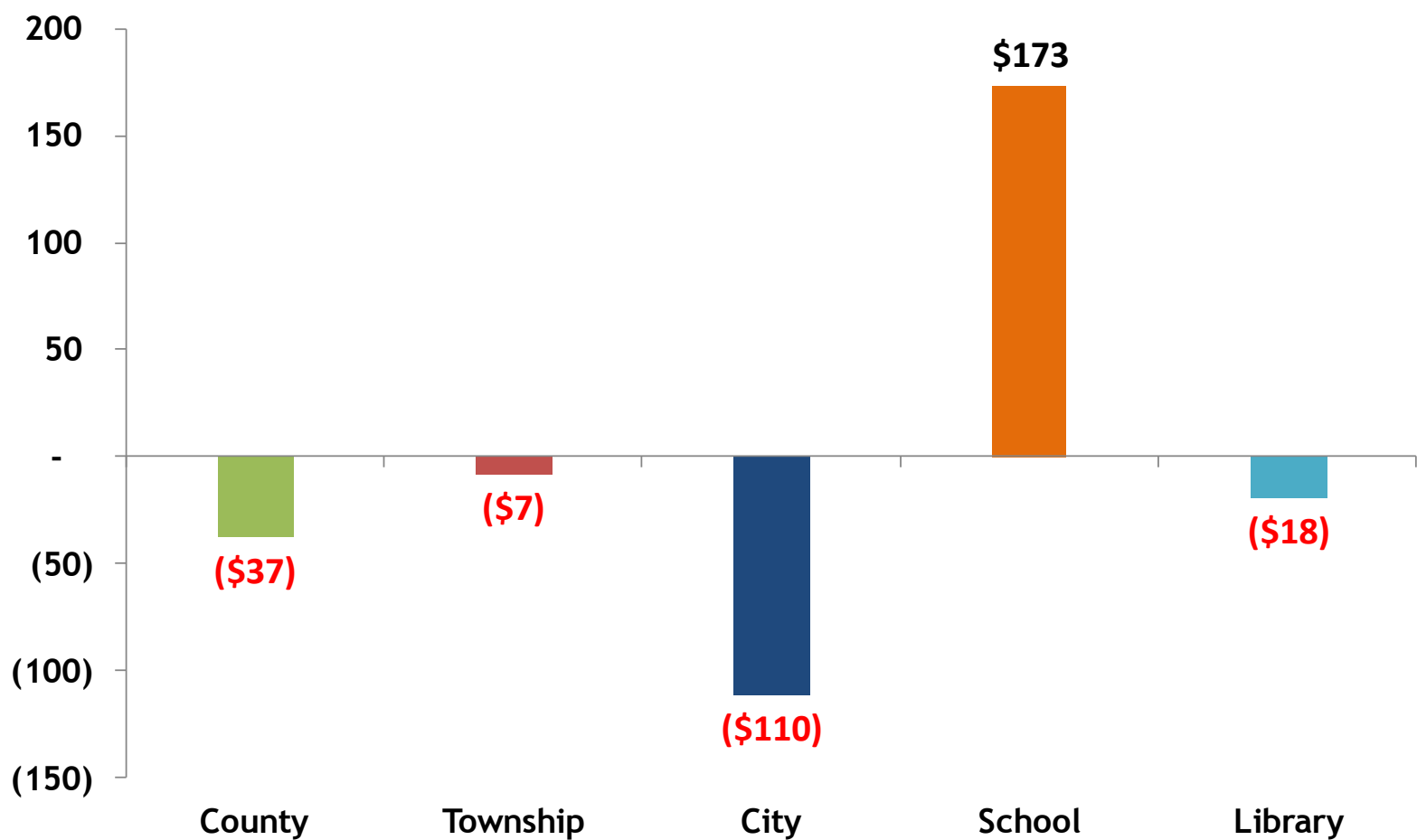


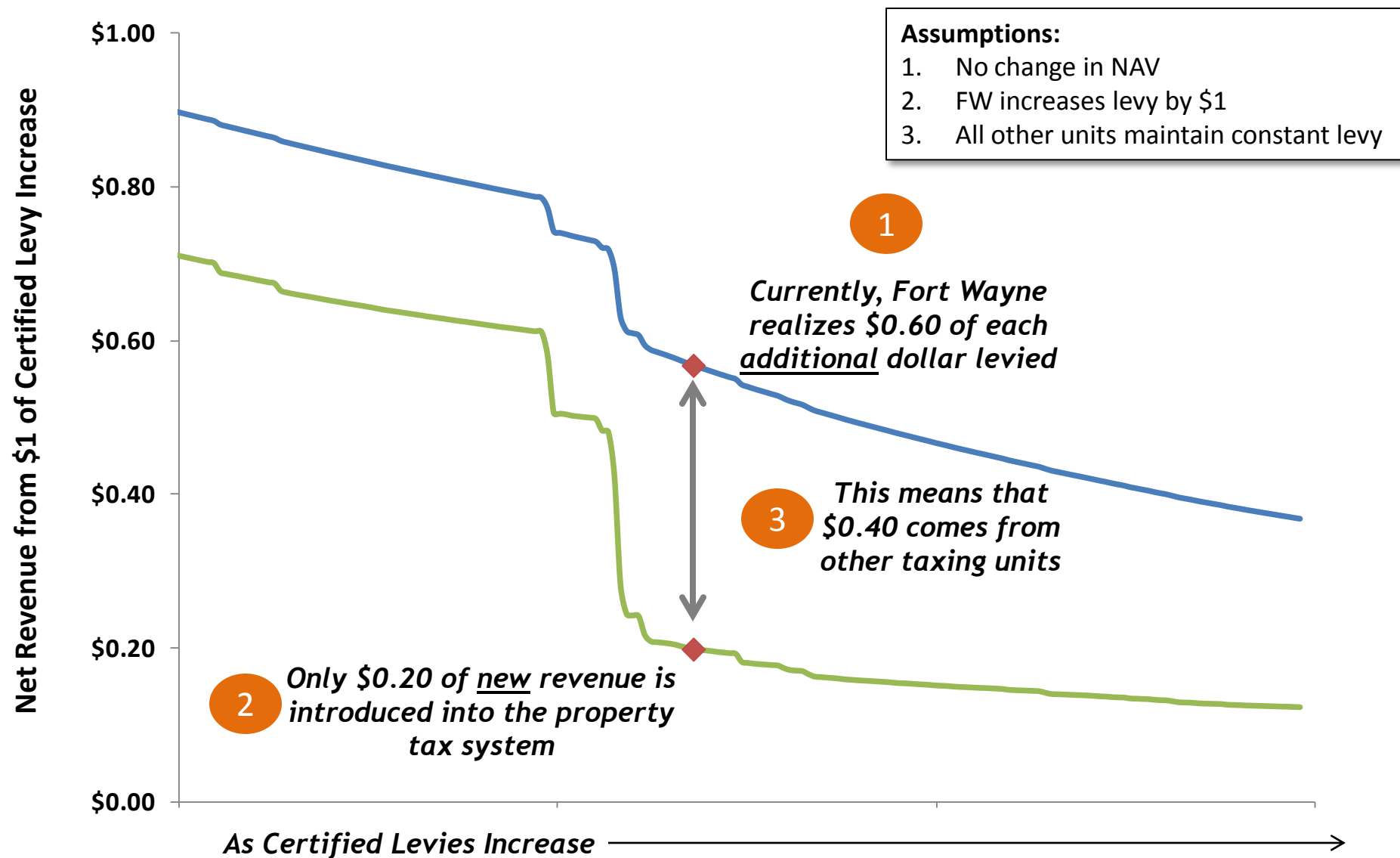
Illustration of Unit Interactions: Net Impacts

Example: Coffee Shop with an Assessed Value of \$100K



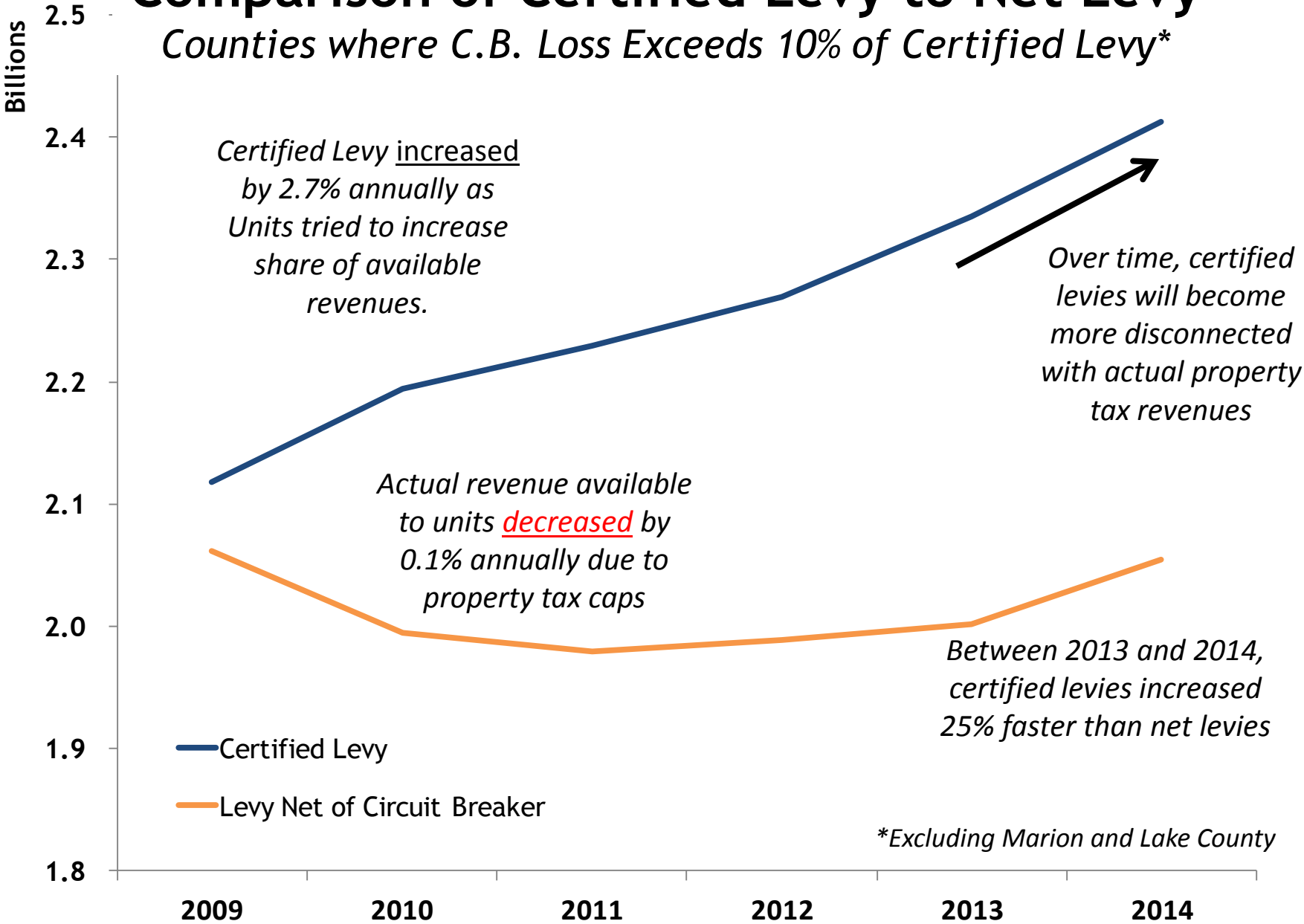
Marginal Impact of a \$1 Change in Levy

Fort Wayne Illustration



Comparison of Certified Levy to Net Levy

*Counties where C.B. Loss Exceeds 10% of Certified Levy**



Conclusion

To a large degree, the 2008 property tax reform achieved its intended effects on taxpayers:

- Provided significant property tax relief to taxpayers in districts with relatively high property tax rates - especially for homeowners.
- Provided stability and predictability for taxpayers, in terms of property tax liability in relation to assessed value.

The circuit breaker caps impose significant revenue reductions in urban areas

- Large regions of Indiana are not significantly affected by the circuit breaker caps.
- The addition of the municipal levies push tax rates above the circuit breaker threshold in many areas.

Conclusion

In the circuit breaker era, tax base growth is essential to increasing property tax revenue

- Circuit breaker losses in urban areas were exacerbated by declining property values during the national recession - to an extent not foreseeable at the time of adoption.
- With the imposition of rate caps, accurate assessments are of greater importance - and have revenue implications for local units.

The circuit breaker credit alters the fiscal planning process for affected local units:

- The policy decisions of individual units have substantial revenue implications for overlapping units.
- Actual circuit breaker losses are not known until very late in the budgeting process.
- Moving forward, there will be greater discrepancies between levies that are advertised, and certified, versus revenues received by taxing units.